

REPORT ON EXAMINATION

OF THE

LR INSURANCE, INC.

AS OF

DECEMBER 31, 2005

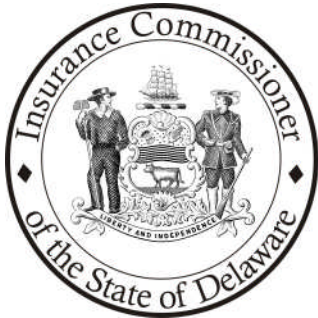
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

LR INSURANCE, INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 21 JUNE 2007



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 21ST DAY OF JUNE 2007.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
LR INSURANCE, INC.
AS OF
December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 21ST Day of JUNE 2007.

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	2
HISTORY	2
CAPITALIZATION	3
Dividends to Stockholder.....	3
MANAGEMENT AND CONTROL	4
Board of Directors.....	4
Committees	4
Officers	4
Conflict of Interest	5
CORPORATE RECORDS	5
Bylaws.....	5
Meeting Minutes	5
HOLDING COMPANY SYSTEM	8
TERRITORY AND PLAN OF OPERATION	9
Territory	9
Plan of Operation	9
GROWTH OF THE COMPANY	10
REINSURANCE.....	11
INTERCOMPANY AGREEMENTS	12
Management Services Agreement	12
Reciprocal Services Agreement.....	13
License Agreement	13
EXTERNAL AGREEMENTS.....	14
Insurance Services Agreement.....	14
ACCOUNTS AND RECORDS	15
FINANCIAL STATEMENTS	18
Assets	18
Liabilities, Surplus and Other Funds	19
Statement of Income	19
Capital and Surplus Account	21
Schedule of Examination Adjustments.....	22
NOTES TO FINANCIAL STATEMENTS	23
Assets	23
Liabilities	24
COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS	26
SUMMARY OF RECOMMENDATIONS	28
CONCLUSION.....	29
SUBSEQUENT EVENTS	30

SALUTATION

March 30, 2007

Honorable Matthew P. Denn
Commissioner of Insurance
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner Denn:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 06.040, dated November 1, 2006, an examination has been made of the affairs, financial condition and management of the

LR INSURANCE, INC.

hereinafter referred to as “Company” and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted through the offices of the Company’s accounting services providers, AON Insurance Managers (USA) Inc., located at 76 Saint Paul Street, Burlington, Vermont 05401. The registered agent upon whom legal process may be served is Corporation Service Company at 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, Delaware 19080.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covers the period since that date through December 31, 2005, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware.

In addition to items hereinafter incorporated as a part of this report, the following topics were reviewed and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance
Legal Actions Pending Settlement
NAIC Ratios
All Asset & Liability Items Not Mentioned

HISTORY

The Company was incorporated as Lloyd's Register Industrial Services on August 10, 1973 under the laws of Delaware, and was licensed to transact business as an insurance company

on August 14, 1973. The Company changed its name to LR Insurance, Inc. with an amendment filed with the Delaware Secretary of State on May 11, 1989 (see comment under the caption “Corporate Records” of this report on examination).

The Company is a wholly owned subsidiary of Lloyd’s Register Americas, Inc., and hereinafter referred to as “Lloyd’s Register”, a Delaware corporation and holding company domiciled in Houston, Texas, which is a wholly owned subsidiary of Lloyd’s Register, a holding company system domiciled in London, England, and hereafter referred to as the “Parent”.

The Parent’s purpose is the ownership of property and shares of the Lloyd’s Register (formerly known as Lloyd’s Register of Shipping Society). Lloyd’s Register and the Company’s primary function is to provide technical and inspection services for the maritime industry throughout the world.

CAPITALIZATION

The Company’s Certificate of Incorporation authorizes the Company to issue 100 shares of common stock with a par value of \$1 per share. In 1973, Lloyd’s Register purchased all authorized shares for \$400,000. As authorized by the Board of Directors, the par value was increased to \$5,000 per share in 1998. The Company amended its Certificate of Incorporation on July 22, 1998 with the Delaware Secretary of State to show the new par value.

Dividends to Stockholder

During the period covered by this examination, the Company did not declare or pay any dividends.

MANAGEMENT AND CONTROL

Board of Directors

The Company's bylaws provide that the business and property of the corporation is to be managed by a Board of not less than three nor more than nine directors. Directors serve until successors are elected.

The Board of Directors and officers as duly elected in accordance with the Company bylaws and serving as of December 31, 2005, having been elected on July 1, 2003 by the sole shareholder (as discussed below under the caption "Corporate Records") were:

<u>Name</u>	<u>Principal Business Affiliation</u>
Paul Alvin Huber	Officer, Lloyd's Register of Shipping
Keith Owen Povey	Officer, Lloyd's Register of Shipping
Peter Anthony Joy	President, AON Insurance Managers

Committees

The Company's Board of Directors did not appoint any committees during the period covered by this examination.

Officers

The Company's bylaws require the following officers; a president (who shall be a director of the Company), one or more vice presidents, a treasurer, and a secretary. On October 15, 2004, the Board of Directors by written consent of all the then three elected members, appointed the following individuals as officers who were also serving as officers as of December 31, 2005 (see also the comments below under the caption "Corporate Records"):

<u>Name</u>	<u>Title</u>
Paul Alvin Huber	President
Gael Hayen Guthrie Lewis	Vice President
David William Arneson	Treasurer
Donna Province Grill	Secretary

Conflict of Interest

The Company has not adopted a formal conflict of interest statement or procedure. The Company's Parent has taken the position that the Company and the Parent company are privately held entities. The Parent has advised that it also does not have a formal conflict of interest policy.

CORPORATE RECORDS

The Company's corporate records consist of its Certificate of Incorporation, its bylaws, stock ledger and transfer book, as well as its shareholder and board of director minutes.

Bylaws

The Company did not amend its bylaws during the period covered by this examination. A review of the Company's bylaws, however, revealed that the copy provided to the examiner has not been updated with the Company's current name on the first page of the bylaws when the Company changed its name from Lloyd's Register Industrial Services on May 11, 1989.

It is recommended that the Company amend its bylaws to reflect the Company's current legal name.

Meeting Minutes

A review of shareholder minutes during the period covered by this examination reveals that the sole shareholder held only one meeting by written consent on July 1, 2003. The sole

shareholder did not hold an annual meeting of any type for the years 2004 - 2005. Therefore, the Company is not in compliance with Article III, Section 1 of its bylaws which state, in part: "The Annual Meeting of stockholders shall be held on the third Tuesday in May of each year or at such other time as may be designated by the Board of Directors."

It is recommended that the Company adhere to its own bylaws, Article III, Section 1, by annually calling and holding a meeting of its sole stockholder.

In July of 2003, the Company's Board of Directors was elected by written consent of the sole shareholder. As mentioned previously, no annual shareholder meetings were held in 2004-2005, therefore these same directors have served since their election on July 1, 2003. Therefore, the Company is not in compliance with Article IV, Section 1 of its bylaws which state, in part: "The Directors shall be elected annually, and shall hold office until their successors are elected and qualify."

It is recommended that the Company adhere to its own bylaws, Article IV, Section 1, by annually electing its members of the Board of Directors.

On January 19, 2006, the sole shareholder re-elected the prior slate of directors.

A review of the meeting minutes of Board of Directors provided by the Company during the period covered by this examination also revealed that the Board of Directors did not comply with the bylaws of the Company in holding their meetings and in the annual election of officers of the Company. Article IV, Section 2 states, in part: "...that a regular meeting of the Board of Directors shall be held each year immediately after the Annual Meeting of the stockholders." The Board of Directors held its last meeting in compliance with the bylaws on July 1, 2003. Subsequent to that meeting the Board of Directors held only one meeting, and that was by

written consent on October 15, 2004 to appoint officers, which will be discussed more thoroughly below. The Company did not hold any meeting of any type for the year 2005. It is also noted that the October 15, 2004 meeting was not held after the Annual Meeting of the sole shareholder as there was no such meeting held.

It is recommended that the Company adhere to its own bylaws, Article IV, Section 2, by holding its regular meeting of its Board of Directors immediately after the Annual Meeting of the stockholders.

As noted above, review of the meeting minutes of Board of Directors provided by the Company during the period covered by this examination also revealed that the Board of Directors did not comply with the bylaws of the Company in the annual election of officers of the Company. The Board of Directors held its last meeting in compliance with the bylaws on July 1, 2003. At that time the Board of Directors only appointed David Arneson as Treasurer and no other officers of the Company. Subsequent to that meeting, the Board of Directors that had not been properly elected by the sole shareholder as detailed previously, held only one meeting, and that was by written consent on October 15, 2004, at which time the Board of Directors appointed the officers of the Company as detailed above under this caption. This is not in compliance with the bylaws of the Company. Article IV, Section 6, states in part: "Officers of the Corporation shall be elected by ballot by the Board at its first meeting after the election of the Directors each year." The Board of Directors did not elect the full slate of officers at its 2003 regular meeting, and did not elect its officers at the regular meeting of Board of Directors in 2004. Furthermore, as the Board of Directors did not hold a meeting of any kind in 2005, the Board of Directors did not comply with the bylaws in the election of its officers for 2005.

It is recommended that the Company adhere to its own bylaws, Article IV, Section 6, by annually electing by ballot its officers at its first meeting after the election of its Board of Directors each year.

It is noted that the entire slate of officers has been serving for all of the years under examination and has signed the respective Annual Statements. It is also noted that on January 19, 2006, the Board of Directors did elect the entire prior slate of officers at their meeting held immediately after the meeting of the sole shareholder that was held on the same date.

As noted under the caption “Accounts and Records” of the prior Report on Examination, the Company was unable to provide the examiner with copies of the Company’s stock transfer ledger and stock certificates. The examiner made a recommendation that the Company comply with 18 Del. C., § 320(c) by providing the documents requested. During this examination, the Company was also unable to find the original stock transfer ledger and stock certificates. On February 21, 2007 the Board of Directors of the Company did meet by teleconference and approved a resolution that the Company re-issue a stock certificate for 100 shares of the Company’s stock to Lloyd’s Register to replace the stock certificate, evidencing Lloyd’s Register’s ownership of the issued shares, which stock certificate has been misplaced or lost. The Company did provide a copy of the new stock certificate. The original stock transfer ledger remains missing.

HOLDING COMPANY SYSTEM

The following is a simplified organizational chart that shows the Company’s relationship with its parent, Lloyd’s Register Americas, Inc, and ultimate parent company, Lloyd’s Register. Each of the lower entities is 100% owned by the respective parent. The Company is part of an

extensive holding company system of over sixty-six companies located throughout the world. However, only the Company offers insurance within the United States.



TERRITORY AND PLAN OF OPERATION

Territory

The Company is authorized to transact the business of casualty insurance, specifically only boiler and machinery insurance, in the states of Delaware and New Jersey.

Plan of Operation

The Company and its Parent perform marine and industrial inspections and surveys around the world. Any insurance business written has been and is currently ancillary to these services. These services are performed in accordance with the codes and specifications of the American Society of Mechanical Engineers (ASME). Marine vessels that operate within various

jurisdictions of the United States are required to be inspected by an insurance company employee who is also a member of the ASME. The Company was formed as an insurance company solely to qualify to perform the inspection of vessels for use in various US jurisdictions. The majority of the Company's business of inspections is coordinated by its London office.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and shows the growth of the Company since its last examination as of December 31, 2002:

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written *</u>	<u>Net Income</u>	<u>Surplus as Regards Policyholders</u>
2005	\$2,325,704	\$ 130	\$ 133,625	\$ 2,309,391
2004	1,957,214	205	533,724	1,939,923
2003	**2,327,897	205	(249,738)	1,903,118
2002	5,304,648	205	1,344,060	3,634,028

* While the Company indicated that it had net premiums written each year ranging from \$130 for 2005 and \$205 each for 2004, and 2003 respectively, the examination has determined that it had not collected any premiums since July 2003 for any of the three policies that it had "issued". This will be discussed under the caption "Accounts and Records" of this Report on Examination.

** As noted under the caption "Accounts and Records" the Company's parent deployed a new accounting system during 2003 which resulted in an adjustment to the Company's surplus as a \$1,499,366 reduction write-in.

As discussed in both the "History" and "Territory and Plan of Operation" sections of this report on examination, the Company's operational purpose since its inception is to provide technical and inspection services for the maritime industry. Most of this activity is related to the UK Branch. Historically, the inspection activity has generated almost all of the income for the

Company and it is expected that this will continue in the future. As noted in the footnote in the above schedule, the Company did not collect any premiums since July of 2003 for any of the three policies that it had “issued”. See “Accounts and Records” section of this Report on Examination as well as the material findings regarding the net premiums written and reinsured as a result of the fact that the Company did not collect these premiums and affect the insurance business related thereto.

Following is a reconciliation of capital and surplus for the period under examination which was also extracted from the Company’s filed Annual Statements:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Surplus as regards policyholders, December 31, prior year	<u>\$3,634,038</u>	<u>\$1,903,118</u>	<u>\$1,939,923</u>
Net Income	(249,738)	533,724	133,626
Change in net unrealized foreign exchange gain (loss)	13,944	138,313	(360,636)
Change in nonadmitted assets	4,250	(635,232)	596,478
Net change from restated 2000-2002 for UK Branch inspection results	<u>1,499,366</u>	<u>0</u>	<u>0</u>
Change in surplus as regards policyholders, current year	<u>\$1,310,810</u>	<u>\$36,805</u>	<u>\$369,468</u>
Surplus as regards policyholders, current year	<u>\$1,903,118</u>	<u>\$1,939,923</u>	<u>\$2,309,391</u>

REINSURANCE

The Company has indicated that it cedes 95% of the premium on the three direct policies written with three unauthorized reinsurers. However, due to the fact that the Company did not collect the initial premium on the underlying policies, and has not since July of 2003, it had no premium in which to reinsure. The unauthorized reinsurance balances, were improperly reported in the Company’s 2003, 2004, and 2005 Annual Statements.

INTERCOMPANY AGREEMENTS

The Company has routinely received from its ultimate Parent inspection fees and related income for inspection services performed by the UK branch of the Company and has paid expenses related to such inspection services to its ultimate Parent. The following is a breakdown by year for the years under examination of this income and these expenses along with the gift aid paid to the ultimate Parent during 2003 to assist the ultimate Parent in its annual charity gift. As noted in recent years the amount of this net miscellaneous income has become minimal.

2005	Inspection Fees and Related Income	\$ 6,655,837
	Expenses Related to Inspection Activity	<u>\$ (6,464,299)</u>
	Miscellaneous Income	<u>\$ 191,538</u>
2004	Inspection Fees and Related Income	\$ 6,859,560
	Expenses Related to Inspection Activity	<u>\$ (6,798,963)</u>
	Miscellaneous Income	<u>\$ 60,597</u>
2003	Inspection Fees and Related Income	\$ 12,314,514
	Expenses Related to Inspection Activity	\$(11,812,002)
	Gift Aid to Parent Undertaking	<u>\$ (573,835)</u>
	Miscellaneous Loss	<u>\$ (71,323)</u>

The expenses associated with the inspection service operations are governed by a Management Services Agreement, a Reciprocal Services Agreement and a License Agreement all entered into with its ultimate Parent.

Management Services Agreement

This agreement was entered into effective July 1, 2002, and covers a wide range of management services provided by the ultimate Parent for a fee based on cost plus an eight per cent mark up. For expenses directly provided by an outside vendor, the ultimate Parent passes these on without a mark-up. All fees paid to the ultimate Parent company have been paid

pursuant to this agreement. The fees paid pursuant to this Management Services Agreement are generally those detailed in the above schedule.

Reciprocal Services Agreement

This Agreement effective July 1, 2003, covers the provision of services to each other in the technical and inspection services for the maritime industry throughout the world. Fees for this agreement are as may be agreed upon from time to time following discussion and negotiation. To date, no direct fees have been paid under this agreement and are generally included in the fees under with the inspection services operations as governed by the Management Services Agreement as detailed previously.

License Agreement

This Agreement effective July 1, 2002, covers trade marks, trade names and other business intangibles, and provides general and technical and marketing support services with the promotion of safety on land and sea as developed by the ultimate Parent company. The license fee is based on residual profits of net sales, of which the Company does not actually participate and are also generally included in the fees governed by the Management Services Agreement detailed above.

A review of the Form B filings made during the period covered by this examination did not reveal that any of these agreements were filed with the Delaware Department of Insurance in compliance with 18 Del.C. § 5004 (b)(3)(e). The prior examination also made a recommendation that the Company report to the Delaware Department of Insurance any and all agreements that are required under 18 Del. C. § 5004 (b)(3)(e).

It is again recommended that the Company report to the Delaware Insurance Department any and all agreements that are required under 18 Del. C. § 5004(b)(3)(e).

EXTERNAL AGREEMENT

Insurance Services Agreement

The Company is party to an agreement with AON Insurance Managers (USA), Inc. (AON). The agreement states that AON (or one of its predecessor companies) will provide insurance management, administrative and advisory services for the insurance related business of the Company. The annual charge for the most recent year, 2005, was \$37,000, payable quarterly in advance. The agreement may be terminated on thirty days notice by either party. The Company first entered into this basic agreement on July 1, 1987 and has continuously utilized the services of this manager, or its predecessors, since that time with amendments at various dates with the last being on November 22, 1990.

It is noted that the agreement provides that AON will prepare and audit all applicable policies, binders, and endorsements. The agreement also provides that AON will establish and maintain full accounting services, including the establishment of such reserves as those for unearned premiums, losses and expenses; and to provide annually a balance sheet and a statement of income and retained earnings and such other financial statements as the Company may require. The agreement also provides that AON is to prepare such statistical and other reports required to be filed with any insurance commission or other regulatory body.

During the course of the examination, the examiner requested from AON, documentation supporting several asset accounts to determine their respective admissibility and several liability accounts to determine their proper establishment. One of the assets that was of question was the uncollected premiums amounting to \$9,303 as of December 31, 2005. It was noted that AON, as insurance manager, could not provide the documentation that premiums were billed to support the uncollected amount as of that date. As noted previously, the agreement provides that AON

will prepare all policies for the Company. This would include the billing for all premiums along with the requirement for the accounting for such premium billings. This will be covered more fully under the following caption of this report on examination. However, it is noted here that the Company should hold its insurance services manager, AON, to the agreement that has been entered into in all aspects per the agreement.

It is recommended that the Company hold its insurance services manager to the agreement that it has entered into in all aspects per the agreement in the operation of the Company.

ACCOUNTS AND RECORDS

The non-insurance, inspection business accounting records of the Company were maintained on a manual basis in the London and New York offices of the Parent until 2002. During 2002, Lloyd's Register globally deployed a new financial accounting system (J.D. Edwards software system) and a thorough review of all account balances was made at that time with the result that several changes were made to several branch level accounts, including the London produced LR Insurance branch financial statements. PricewaterhouseCoopers, the group's internal auditor, closely monitored the deployment of the new accounting system, as well as the internal review of account balances. These adjustments were primarily the result of changes in intercompany allocations of income and expenses. These adjustments were netted and recorded in the 2003 statement as a write-in adjustment to surplus. The Company's share of these restated results was a \$1,499,366 reduction in the Company's surplus as reported on the 2003 Annual Statement. The Company and the Group feel that this was a onetime adjustment and with the deployment of the new accounting system, as well personnel changes, these issues will not recur.

The insurance records are maintained by AON Insurance Managers (USA) Inc. (AON). AON incorporates the manual records of the inspection business into AON's automated accounting system which contains the postings of the insurance business. The Company's Annual Statement is prepared by AON using numbers forwarded by the US operations in Houston, Texas. The Company's records are not audited by an external auditing firm.

The Company did not provide certain records requested by the examiner. The examiner requested copies of the original stock transfer ledger and stock certificates. During the examination, the Company did provide replacement copies of the stock certificates but was unable to locate the stock transfer ledger, which remains missing.

The Company also failed to provide support for the other expenses and inspection fees receivable. The examiner was therefore unable to render an opinion as to the account balance or compliance with statutory or NAIC requirements for these items. It is noted that these same lack of records issues were present during the prior examination.

Failure to provide requested information is in violation of 18 Del. C. § 320(c) which states "Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination."

It is again recommended that the Company comply with 18 Del. C. § 320(c) by providing the examiners the documents requested.

As noted previously under the caption “External Agreements”, the examiner requested from AON documentation supporting uncollected premiums amounting to \$9,303. AON, as insurance manager, could not provide the documentation that AON billed the premiums supporting the uncollected premiums as of December 31, 2005, let alone when the actual premiums were due. During the examination, AON did provide a copy of a memo along with several invoices all dated November 14, 2006 that AON did, subsequently, bill for all of the Company’s policies indicated as then issued. These invoices covered one-year annual periods from July 1, 2003 for two policies (one of which was non-renewed effective July 1, 2004), October 1, 2003 for another policy, and January 1, 2004 for a fourth through the current date. However, pursuant to SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual, in part, “..., any uncollected premium balances which are over ninety days past due shall be nonadmitted.”

AON then proceeded to establish on the same invoice and at the same time a reinsurance ceded payable of \$8,838. The recognition of an asset, even a nonadmitted asset, and the establishment of a liability for premiums that had not even been billed as of the annual statement date is improper accounting and has been disallowed for purposes of this report on examination. All aspects of such unbilled premiums have not been recognized.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2005, as determined by this examination, along with supporting exhibits as detailed below:

Assets, December 31, 2005

Liabilities, Surplus and Other Funds, December 31, 2005

Statement of Income, December 31, 2005

Capital and Surplus Account for the Period of December 31, 2004 to December 31, 2005

Schedule of Examination Adjustments as of December 31, 2005

Assets**As of December 31, 2005**

	<u>Ledger</u> <u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net</u> <u>Admitted</u> <u>Assets</u>	<u>Notes</u>
Cash, cash equivalents and short-term investments	\$1,512,562		\$1,512,562	
Investment income due and accrued	2,461		2,461	
Uncollected premiums	9,303	\$9,303	0	1
Federal income taxes recoverable	81,704		81,704	
Receivable from parent	728,977		728,977	2
Accounts receivable - UK Branch	<u>32,552</u>	<u>32,552</u>	<u>0</u>	
Totals	<u>\$2,367,559</u>	<u>\$ 41,855</u>	<u>\$2,325,704</u>	

Liabilities, Surplus and Other Funds

		<u>Notes</u>
Losses	\$ 0	3
Other expenses	7,403	
Unearned premiums	0	4
Ceded reinsurance premiums payable	<u>0</u>	5
 Total Liabilities	 <u>\$ 7,403</u>	
 Common capital stock	 \$ 500,000	
Gross paid in and contributed surplus	1,058,154	
Unassigned funds	<u>760,147</u>	
 Surplus as regards policyholders	 <u>\$2,318,301</u>	
 Total Liabilities and Surplus	 <u>\$2,325,704</u>	

Statement of Income
As of December 31, 2005

		<u>Notes</u>
UNDERWRITING INCOME		
Premiums earned	\$ 0	4
 DEDUCTIONS		
Losses incurred	0	
Loss expenses incurred	0	
Other underwriting expenses incurred	\$20,232	
Aggregate write-ins for underwriting deductions	<u>0</u>	
Total underwriting deductions	<u>\$20,232</u>	
Net underwriting gain (loss)	\$(20,232)	

INVESTMENT INCOME

Net investment income earned	\$ 29,141
Net realized capital gains (losses) less capital gains tax of \$-0-	<u>0</u>
Net investment gain (loss)	\$ 29,141

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off	\$ 0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income (See Note Next Page)	<u>\$191,538</u>
Total other income	<u>\$191,538</u>

Net income before dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$200,447
Dividends to policyholders	<u>0</u>

Net income after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$200,577
Federal and foreign income taxes incurred	<u>66,951</u>

Net income	<u>\$133,496</u>
------------	------------------

Details of Miscellaneous Income Write-in

Inspection Fees & Related Income	\$6,655,837
Expenses Related to Inspection Activity	<u>(6,464,299)</u>
Total	<u>\$ 191,538</u>

Capital and Surplus AccountNotes

Surplus as regards policyholders, December 31, 2004	\$1,939,923	
Net income	<u>133,496</u>	
Change in net unrealized capital gains or (losses)	\$ 0	
Change in net unrealized foreign exchange capital gain (loss)	(360,636)	
Change in net deferred income tax	0	
Change in nonadmitted assets	596,478	
Change in provision for reinsurance	8,838	5
Change in unearned premiums	72	4
Change in premiums earned	130	4
Dividends to stockholders	<u>0</u>	
Change in surplus as regards policyholders for the year	<u>\$ 378,378</u>	
Surplus as regards policyholders, December 31, 2005	<u>\$2,318,301</u>	

Schedule of Examination Adjustments**As of December 31, 2005**

	Company Amount	Examination Amount	Increase (Decrease) in Surplus	Notes
<u>ASSETS</u>				
NONE	\$ -	\$ -	\$ -	
<u>LIABILITIES</u>				
Unearned premiums	\$72	\$0	\$72	4
Ceded reinsurance premiums payable	<u>8,838</u>	<u>8,838</u>	<u>8,838</u>	5
		Total	<u>\$ 8,910</u>	
<u>SURPLUS AS REGARDS POLICYHOLDERS</u>				
Common capital stock	\$ 500,000	\$ 500,000	\$ -	
Gross paid in and contributed surplus	1,058,154	1,058,154	0	
Unassigned funds	<u>751,237</u>	<u>760,147</u>	<u>8,910</u>	
Totals	<u>\$2,309,391</u>	<u>\$2,325,704</u>	<u>\$ 8,910</u>	

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 – Uncollected premiums

\$0

The Company properly reported the above amount for this asset as \$-0- as the premiums that totaled \$9,303 were well in excess of 90 days overdue in collection as of December 31, 2005. Review of the individual invoices that the Company prepared in November of 2006 showed that the Company has not billed for its issued boiler and machinery insurance policies since July 1, 2003 for two policies (one of which was non-renewed effective July 1, 2004), October 1, 2003 for one policy, and January 1, 2004 for a fourth.

As noted under the caption “Accounts and Records” of this report on examination, AON, as insurance manager for the Company, could not provide the documentation that AON billed the premiums supporting the uncollected premiums as of December 31, 2005, let alone when the actual premiums were due. During the examination, AON did provide a copy of a memo along with several invoices all dated November 14, 2006 that AON did, subsequently, bill for all of the Company’s policies indicated as then issued. These invoices covered one-year annual periods as detailed above. Pursuant to SSAP No. 6 of the NAIC *Accounting Practices and Procedures Manual*, in part, “..., any uncollected premium balances which are over ninety days past due shall be nonadmitted.”

It is recommended that the Company timely bill for its insurance policies when such policies are written and to non-admit the premium that is uncollected only when such premium is in excess of 90 days overdue.

Note 2 – Receivable from Parent, Subsidiaries and Affiliates

\$728,977

The amount reported above is the same as that reported by the Company. The Company collected this December 31, 2005 receivable amount in February of 2007 during the course of the examination. The Company should demand settlement of such balances within 60 days and should accrue interest as stated in the Management Services Agreement when such settlements do not occur on a timely basis.

The Company was unable to provide the documentation that supported the details of the transactions that gave rise to the receivable. The Company should obtain and retain supporting documentation as required in 18 Del. C. § 5005(a)(1)(d). If the Company intends that the balances are not to be repaid, then the balance should be reclassified to the appropriate account. During the prior examination as of December 31, 2002, the same receivable concern was present and recommendation was made at that time.

It is again recommended that the Company settle any intercompany balances within 60 days as required by its Management Services Agreement and that it maintain documentation to support the nature of the transaction that gave rise to the balance as required under 18 Del. C. § 5005(a)(1)(d).

Liabilities

Note 3 – Losses

\$ 0

No change was made as a result of the examination of this liability. The Company did not report any direct or net losses for the period under review. An exemption from the 2005 actuarial opinion filing requirement was requested by the Company and granted by the Delaware Department of Insurance.

Note 4 – Unearned premiums

\$ 0

The examination has eliminated entirely this liability as a result of the examination of this account. The Company did establish an unearned premiums liability of \$72 as of December 31, 2005 for premiums that it believed that were unearned as of that date. However, as noted previously, as the Company's insurance manager could not provide the documentation that it billed the premiums supporting the uncollected premiums as of December 31, 2005, let alone when the actual premiums were due, then there could be no unearned premium. There also could be no earned premium for the same reason, there were no premiums collected.

It is recommended that the Company only recognize unearned premiums on premiums that it actually has written.

Note 5 – Ceded reinsurance premiums payable

\$ 0

The examination has eliminated entirely this liability as a result of the examination of this account. The Company did report a payable for ceded reinsurance premiums amounting to \$8,838 as of December 31, 2005. As noted above for the asset "Uncollected premiums", a review of the individual invoices that the Company prepared in November of 2006 showed that the Company has not only not billed for its issued boiler and machinery insurance policies since July 1, 2003 for two policies (one of which was non-renewed effective July 1, 2004), October 1, 2003 for one policy, and January 1, 2004 for a fourth, but has also not paid for the cession of the premium for these same policies.

AON established a reinsurance ceded payable of \$8,838. The recognition of an asset, even an nonadmitted asset, and the establishment of a liability for premiums that had not even been billed as of the annual statement date is improper accounting and has been given no

creditability for purposes of this report on examination. All aspects of such unbilled premiums have not been recognized.

It is recommended that the Company timely bill for its insurance policies when such policies are written and to subsequently cede the portion of such premiums as collected as provided in compliance with the Company's reinsurance agreements.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The prior examination report contained several recommendations as follows:

It is recommended that the Company amend their certificate of incorporation to reflect the change in par value to \$5,000 per share.

The Company presented documentation that this had been previously done by certified copy received from the Delaware Secretary of State dated July 30, 1998.

It is recommended that the Company comply with the distribution requirements of 18 Del. C. § 5005(b) when making distributions from the Company. It is also recommended that the Company's Board of Directors approve any such distribution and that such approval be recorded in the minutes of the meeting.

Company agreed with the recommendation. No distributions had been made by the Company since the last examination.

It is recommended that the Company up-date the Bylaws to be consistent with Stockholder resolutions.

As noted in this report under the caption "Management and Control". The Company's formal response to the above recommendation on February 17, 2005 was that the recommendation was "completed". However, review during this examination has found that such action was not completed and the action of the Company's sole shareholder subsequent to the June 29, 2000 meeting in the election of three members to the Board of Directors for both the 2001 and 2002 Annual Board of Directors meetings as reported subsequent in the prior Report On Examination makes the 2000 action somewhat moot.

It is recommended that the Company properly report the members of the Company's Board of Directors in future filings of its Annual Statement.

The Company presented subsequent filings of its Annual Statements with the proper listings of its Board of Directors.

It is recommended that the Company report to the Delaware Insurance Department any agreement that is required under 18 Del. C. § 5004(b)(3)(e).

As noted under the caption “Intercompany Agreements” of this Report On Examination, the Company has not complied with this recommendation and that the recommendation is again made that the Company report to the Delaware Department of Insurance any agreement that is required under 18 Del. C. § 5004(b)(3)(e).

It is recommended that the Company comply with 18 Del. C. § 320(c) by providing the examiners the documents requested.

As noted under the caption “Accounts and Records” of this Report on Examination, the Company has not complied with this recommendation and that the recommendation is again made that the Company comply with 18 Del. C. § 320(c) by providing the examiners the documents requested.

It is recommended that the Company settle any intercompany balances within 60 days as required by its Management Services Agreement and that it maintain documentation to support the nature of the transaction that gave rise to the balance as required under 18 Del. C. § 5005(a)(1)(d).

As noted under the Notes to Financial Statements – Note # 3 – Receivable From Parent, Subsidiaries and Affiliates, it is also again recommended that the Company settle any intercompany balances within 60 days as required by its Management Services Agreement and that it maintain documentation to support the nature of the transaction that gave rise to the balance as required under 18 Del. C. § 5005(a)(1)(d).

It is recommended that the Company file timely tax returns as required by law.

The Company agreed with this recommendation and has timely filed its tax returns as required by law since the prior examination.

To maintain its Delaware license, it is recommended that the Company comply with the terms of the agreement between the Department of Insurance and the Company.

The Company’s response was that on September 15, 2004, the Company collected \$500,000 as payment towards intercompany receivables. This transaction increased admitted assets and equity by \$500,000 and therefore, the Company has in excess of the statutory minimum of \$1,200,000 as of September 30, 2004.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company amend its bylaws to reflect the Company's current legal name. Management and Control – Bylaws (Page 5)
2. It is recommended that the Company adhere to its own bylaws, Article III, Section 1, by annually calling and holding a meeting of its sole stockholder. Management and Control – Corporate Records (Page 6)
3. It is recommended that the Company adhere to its own bylaws, Article IV, Section 1, by annually electing its members of its Board of Directors. Management and Control – Corporate Records (Page 6)
4. It is recommended that the Company adhere to its own bylaws, Article IV, Section 2, by holding its regular meeting of its Board of Directors immediately after the Annual Meeting of the stockholders. Management and Control – Corporate Records (Page 7)
5. It is recommended that the Company adhere to its own bylaws, Article IV, Section 6, by annually electing by ballot its officers at its first meeting after the election of its Board of Directors each year. Management and Control – Corporate Records (Page 8)
6. It is again recommended that the Company report to the Delaware Insurance Department any and all agreements that are required under 18 Del. C. § 5004(b)(3)(e). Intercompany Agreements (Page 13)
7. It is recommended that the Company hold its insurance services manager to the agreement that it has entered into in all aspects per the agreement in the operation of the Company. External Agreements – Insurance Services Agreement (Page 15)
8. It is again recommended that the Company comply with 18 Del. C. § 320(c) by providing the examiners the documents requested. Accounts and Records (Page 16)
9. It is recommended that the Company timely bill for its insurance policies when such policies are written and to non-admit the premium that is uncollected only when such premium is in excess of 90 days overdue. Notes to Financial Statements – Uncollected Premiums (Page 23)
10. It is again recommended that the Company settle any intercompany balances within 60 days as required by its Management Services Agreement and that it maintain documentation to support the nature of the transaction that gave rise to the balance as required under 18 Del. C. § 5005(a)(1)(d). Notes to Financial Statements – Receivable From Parent, Subsidiaries and Affiliates (Page 24)
11. It is recommended that the Company only recognize unearned premiums on premiums that it actually has written. Notes to Financial Statements – Unearned Premiums (Page 25)
12. It is recommended that the Company timely bill for its insurance policies when such policies are written and to subsequently cede the portion of such premiums as collected as provided in

compliance with the Company's reinsurance agreements. Notes to Financial Statements –
Ceded Reinsurance Premiums Payable (Page 26)

CONCLUSION

The following schedule shows the results of this and the prior examination with changes
between the three year periods:

<u>Description</u>	<u>December 31 2002</u>	<u>December 31, 2005</u>	<u>Increase</u>
Assets	\$ 1,425,780	\$ 2,325,704	\$ 899,924
Liabilities	\$ 512,405	\$ 7,403	\$ (505,002)
Capital and Surplus	\$ 913,375	\$ 2,318,301	\$ 1,404,926

Respectfully submitted,



Larry E. Cross, CFE, CIE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

Change of Location of Registered Office and Registered Agent

On November 17, 2006, the Company filed with the Delaware Secretary of State a Certificate of Change of Location of Registered Office and Registered Agent wherein the Company changed its registered office from 306 State Street, Dover, Delaware 19904 to 2711 Centerville Road, Suite 400, City of Wilmington, Delaware 19808, County of New Castle. A change was also made in the registered agent from U.S. Corporation Company to Corporation Service Company at the address in Wilmington, Delaware.